

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Kehoe Analyst: Marion Mann DeJong Bill Number: AB 29X
Related Bills: See Legislative History Telephone: 845-6979 Amended Date: 03/05/2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Exclusion/Grants or Loans for Construction & Retrofitting Buildings to be More Energy Efficient

SUMMARY

Under the Public Resources Code, this bill would create various programs to promote energy conservation. These programs would include tax-exempt grants for replacing energy inefficient appliances and for making buildings more energy efficient.

This analysis will address only the income exclusion of the tax-exempt grants.

SUMMARY OF AMENDMENTS

The February 20, 2001, amendments extended the tax credit for small businesses that replace commercial refrigerators with energy efficient refrigerators to corporate taxpayers. The February 20, 2001, amendments also modified energy conservation measures being added to the Public Resources Code, including the grant programs for replacing energy inefficient appliances and making building more energy efficient. The amendments added a provision to the Public Resources Code to exclude the grants received from income for tax purposes.

The March 5, 2001, amendments deleted the tax credit provisions for replacing energy inefficient commercial refrigerators and replaced them with a loan program.

PURPOSE OF THE BILL

According to the author's staff, the purpose of the bill is to encourage energy conservation by providing grants and loans to replace energy inefficient appliances and to modify buildings to be more energy efficient.

EFFECTIVE/OPERATIVE DATE

As an urgency statute, this bill would become effective immediately upon enactment. The income exclusion would apply to grants received during taxable years beginning on or after January 1, 2001.

POSITION

Pending.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Alan Hunter for GHG

03/19/01

Summary of Suggested Amendments

Amendments 1 and 2 are provided to put the income exclusion in the Revenue and Taxation Code.

ANALYSIS

FEDERAL/STATE LAW

Both state and federal law exclude from gross income amounts received as energy conservation subsidies from a public utility. The subsidies must be for the purchase or installation of energy conservation measures designed to reduce the consumption of electricity or natural gas or to improve the management of energy demand and must be installed on dwelling units.

THIS BILL

In the Public Resources Code, this bill would create the Energy Conservation Act of 2001. It would create various programs to promote energy conservation. The State Energy Resources Conservation and Development Commission would be charged with administering the energy conservation programs. Such programs would include grants to be used for replacing energy inefficient appliances and making buildings more energy efficient.

The bill provides, under the Public Resources Code, that any grant received under the programs created by this act would be excluded from gross income for California income tax purposes.

IMPLEMENTATION CONSIDERATIONS

The gross income exclusion for grants received under this bill should be placed in the Revenue and Taxation Code to enable taxpayers and the department to look to one code for income tax provisions. Amendments 1 and 2 are provided to place the income exclusion in the Personal Income Tax and Bank and Corporations Tax Laws.

OTHER STATES' INFORMATION

Michigan uses an extensive system of grant and loan incentives to encourage investment in alternative energy and energy conservation. One program exempts the value of energy conservation devices from local property tax.

Massachusetts has an extensive program of tax exemptions and credits designed to encourage the consumption and production of energy efficient and alternative energy systems. These tax benefits include the following: a sales tax exemption for individuals who purchase equipment directly related to solar, wind, or heat pump systems for a primary residence, and a property tax exemption for the value of solar or wind energy systems.

New York has programs designed to effect both the consumption and the production of energy conservation systems and alternative energy equipment. Individuals are allowed a credit equal to 25% of certain solar electric generating expenditures.

The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

As the proposed energy conservation grant or loan programs/projects do not exist presently, excluding the dollar amount of such grants from the gross income of qualified individuals would not impact state income tax revenues.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 29X
As Amended March 5, 2001

AMENDMENT 1

On page 9, strike out line 8 and insert:

SEC. 2. Section 17147.3 is added to the Revenue and Taxation Code to read:
17147.3. Gross income shall not include the amount of any grant awarded pursuant to Article 3 (commencing with Section 25430) or Article 4 (commencing with Section 25433) of Chapter 5.3 of Division 15 of the Public Resources Code, relating to energy conservation.

SEC. 3. Section 24329 is added to the Revenue and Taxation Code to read.
24329. Gross income shall not include the amount of any grant awarded pursuant to Article 3 (commencing with Section 25430) or Article 4 (commencing with Section 25433) of Chapter 5.3 of Division 15 of the Public Resources Code, relating to energy conservation.

SEC. 4. The sum of four hundred fifty million dollars

AMENDMENT 2

On page 10, line 3, strike out "Sec. 3." and insert:

SEC. 5.